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ABSTRACT

This guide describes the principles that underpin the allocation of funding to institutions of higher education in England by the Higher Education Funding Council for England (HEFCE) and explains the components of an institutions grant. It is intended both for those working in higher education and for those who want to understand funding methods. Formulas are used to determine how most of the money is allocated among institutions. These formulas take into account certain factors for each institution. The allocated funding is provided as a block grant that institutions may spend according to their own priorities within the broad HEFCE guidelines. In the 1996-1997 academic year funding methods were revised and the method used at present was first applied in 1997-1998. Because the HEFCE wants to be open about allocation methods and policies, the document describes the annual funding cycle, funds for teaching, funds for research, and other related funding. An annex gives some examples of funding for teaching. A glossary is also included. (SLD)

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ED 464 546

April 02/18 **Guide**

Funding higher education in England

How the HEFCE allocates its funds

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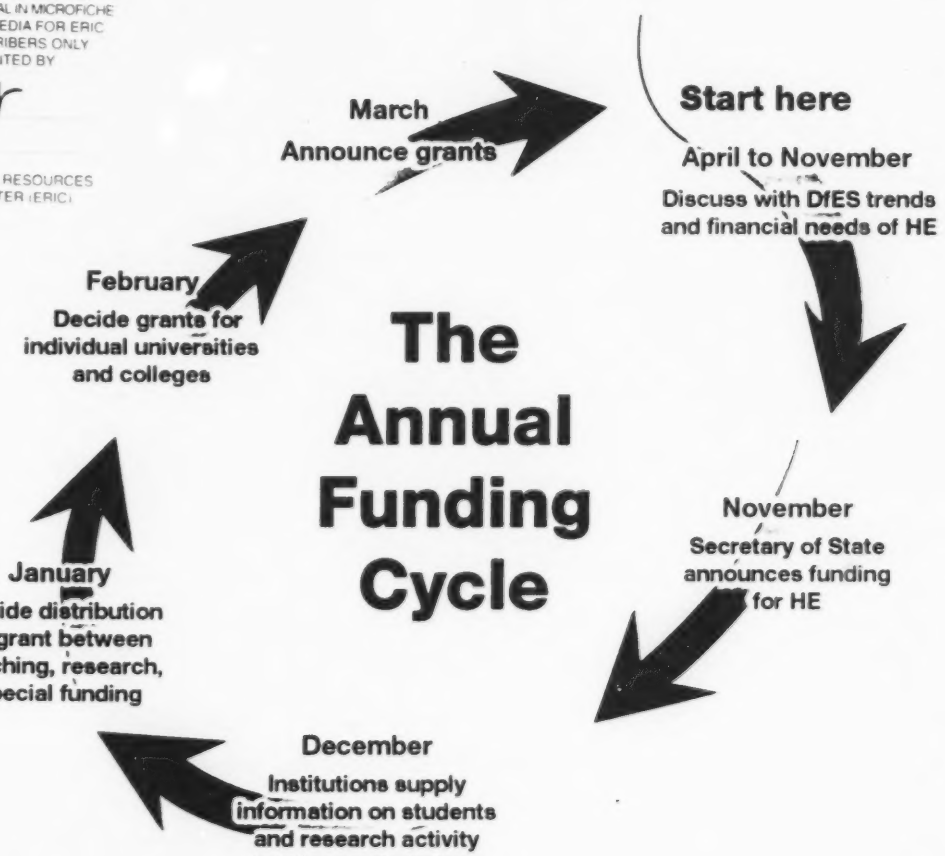
The Annual Funding Cycle
Start here
April to November
Discuss with DfES trends and financial needs of HE
November
Secretary of State announces funding for HE
December
Institutions supply information on students and research activity to inform calculations of grant
January
Decide distribution of grant between teaching, research, special funding
February
Decide grants for individual universities and colleges
March
Announce grants

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Funding higher education in England: How the HEFCE allocates its funds

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Introduction

1. Every March we announce the grant for the following academic year to each university and college we fund. The academic year runs from 1 August to 31 July.

2. This guide describes the principles that underpin the allocation of funding, and explains the components of an institution's grant. It is intended for those working in higher education and for others who wish to understand our funding methods.

3. We use formulae to determine how most of the money is allocated between institutions. These take account of certain factors for each institution, including the number and type of students, the subjects taught, and the amount and quality of research undertaken there. After we determine the amount of funding, it is provided in the form of a 'block grant' which institutions are free to spend according to their own priorities within our broad guidelines. We do not expect institutions to model their internal allocations on our own funding method.

4. In 1996-97 we consulted widely and reviewed our funding methods for teaching and research. The present funding method for research was first used to allocate grants for 1997-98. The funding method for teaching was introduced for 1998-99 for higher education institutions (HEIs) and for 1999-2000 for those further education colleges (FECs) that we fund.

5. It is our policy, and has been our practice, to be open about our allocation methods and policies, and this guide is intended to explain them. Our web-site (www.hefce.ac.uk) provides further information.

Background

6. Periodically we advise the Secretary of State for Education and Skills on the funding needs of higher education in England. The actual funding for higher education is decided by the Government and voted by Parliament.

7. We are responsible for distributing this money, within broad policy guidelines provided by the Secretary of State. In 2002-03 we are directly funding 131 HEIs, and 196 FECs that provide higher education courses.

8. Institutions are accountable to the Council, and ultimately to Parliament, for the way they use Council funds. They are independent bodies and are free to raise money from other sources. This gives them scope to pursue activities alongside those for which they receive Council funds.

9. We allocate funds to each university or college to support teaching, research and related activities. In doing so, we aim to:

- increase opportunities for students from all types of backgrounds to benefit from higher education
- maintain and enhance the quality of teaching and research
- encourage universities and colleges to work with business and the community
- support diversity
- encourage efficiency in the use of public funding
- provide stability in funding from year to year.

10. Funds for teaching and research are provided as a block grant. Institutions are free to distribute this grant internally at their own discretion, as long as it is used to support teaching, research and related activities.

11. HEIs receive funding from many different public and private sources. The HEFCE is the largest single source of income for the higher education sector. The proportion of an institution's total income allocated by the HEFCE will depend on its activities and money raised from other sources.

12. After Council grant, tuition fees are usually the other major source of funding for teaching. Since 1998-99, UK or European Union (EU) students starting full-time undergraduate courses have been liable to pay an annual tuition fee. The fee level (£1,100 for 2002-03) represents about a quarter of the average cost of tuition. Fees are means-tested by students' local education authorities (LEAs) so that those from poorer families are exempt, or pay only a proportion. The Student Loans Company pays any public contribution towards the fee.

13. We are the single largest provider to HEIs of public funds for research. Public funds for research in universities and colleges are also provided by the Office of Science and Technology. These are distributed by the Research Councils, and support research projects and some postgraduate students. The Arts and Humanities Research Board (AHRB) similarly supports research projects and some postgraduate students in the arts and humanities. In the rest of this publication, reference to 'Research Councils' includes the AHRB.

Medical and dental education and research

14. Government funding of medical and dental education and research is distributed through a partnership between the HEFCE and the National Health Service (NHS). HEFCE-allocated funds underpin teaching and research in university medical schools, while NHS funds support the clinical facilities needed to carry out these activities in hospitals and other parts of the health service. Funding for students in health-related subjects such as nursing and midwifery comes from the NHS.

Teacher education and training

15. The Teacher Training Agency (TTA) provides funding for education and training courses aimed at school teachers. In particular, it funds initial teacher training courses leading to qualified teacher status (QTS), and in-service education and training courses for teachers who hold QTS. The HEFCE funds other teacher education and training provision outside the schools sector.

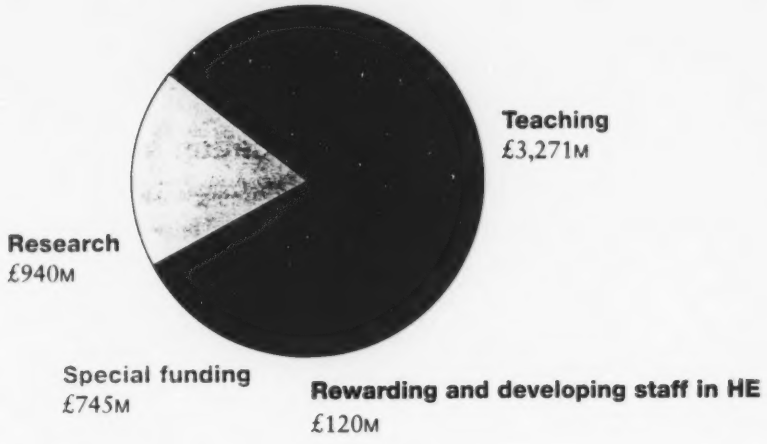
Higher education in further education colleges

16. The HEFCE is responsible for funding courses at FECs on which the students are aiming for certain higher education qualifications. These are: higher degrees (such as Masters qualifications); Postgraduate Certificate in Education (PGCE); first degrees, including foundation degrees (BA, BSc, BEd); foundation degree bridging courses; Higher National Diploma and Certificate (HND and HNC); Diploma in Higher Education (DipHE); and Certificate in Education (CertEd). Other higher education courses at FECs, such as some professional courses, are fundable by the Learning and Skills Council (LSC).

The annual funding cycle

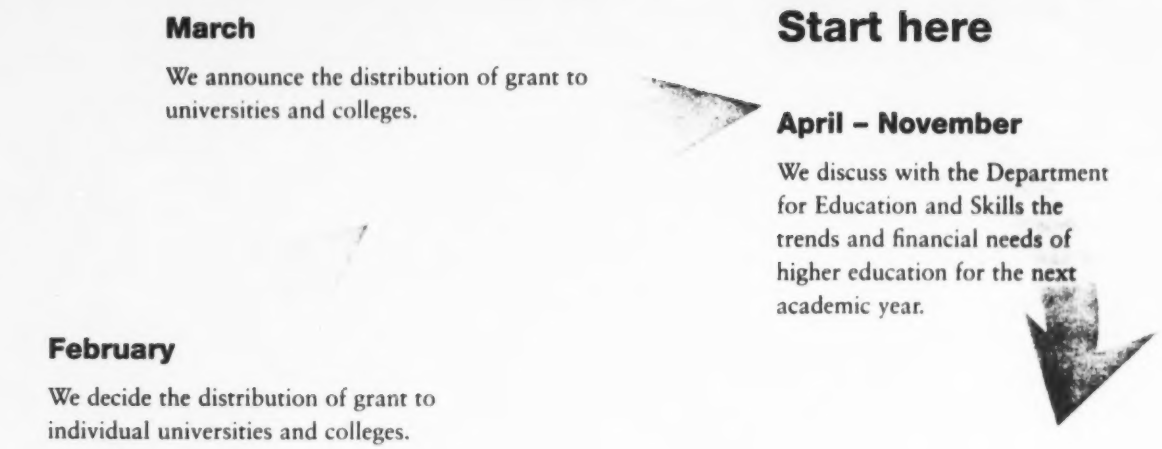
17. Each year we divide the total funds between teaching, research and special funding. The breakdown for 2002-03 is shown in Figure 1.

Figure 1 **Breakdown of HEFCE funding in 2002-03 – total £5,076 million**



18. Most of these funds are distributed by formulae, which take account of the volume and mix of individual institutions' teaching and research. We publish the data on which calculations are based, so that institutions can check the outcomes each year.

Figure 2 **The annual funding cycle**


March
We announce the distribution of grant to universities and colleges.
Start here
April – November
We discuss with the Department for Education and Skills the trends and financial needs of higher education for the next academic year.
February
We decide the distribution of grant to individual universities and colleges.
November
The Secretary of State for Education and Skills announces funding for higher education.
January
We decide the distribution of the total grant between the main headings – teaching, research, and other funding.
December
HEIs and FECs supply information on the distribution of the current year's student numbers. This provides the data needed to calculate the following year's grant for teaching. HEIs also supply information on their research activities. This provides the data needed to calculate the following year's grant for research.

19. Every two years, the Secretary of State for Education and Skills informs the HEFCE of the likely funding available each year for the next three years. The total grant to be allocated for the following year is confirmed each autumn and guidance is given on spending priorities. We then determine the grants to individual institutions between December and February each year (see Figure 2). Each December, universities and colleges provide the Council with a breakdown of their student numbers, together with information on research activities.

20. The main data return, the Higher Education Students Early Statistics Survey (HESES), collects information about the number of students studying at each HEI. A similar return is provided by further education colleges – the Higher Education in Further Education: Students Survey (HEIFES).

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Funds for teaching

This part of the guide is divided into three sections:

- general funding principles
- overview of the funding method
- detailed description of the method.

General funding principles

21. In distributing the funds, we aim to meet the needs of students, employers and the nation by promoting high quality teaching.

22. We introduced our method to allocate funds for teaching in 1998-99. The previous method provided stability for institutions, but in some cases gave differing levels of funding for different institutions for historical rather than educational reasons. With our current method we aim to provide fairer funding for students.

23. The method was developed in consultation with universities and colleges. It funds similar activities at similar rates for all institutions, and ensures that any variations are for explicit and justifiable reasons. In addition, it supports our policy to increase opportunities for a wide range of people to enter higher education. It takes account of the extra costs of providing for certain types of student, such as part-timers and mature undergraduates, and supports diversity by recognising the extra costs of specialist colleges.

24. The method also allows institutions to bid for additional funded students according to criteria that we determine each year.

25. In addition to our main teaching funding method, we have made separate allocations to recognise the additional costs of recruiting and supporting students under-represented in higher education or with disabilities. These allocations to widen participation, which are described further in paragraphs 56 to 58, recognise institutions' success in recruiting these categories of students. Allocations total £47 million for 2002-03.

26. Institutions receive teaching funds in the form of HEFCE grant and student fees. Full-time undergraduate students may receive assistance with their fees from the Government, based on their financial circumstances. Postgraduate students on taught courses pay fees to institutions mostly from their own funds. Fees for many postgraduate research students are paid by the Research Councils. More than a third of the fees for part-time students are paid by employers. Students from outside the EU are expected to meet the full costs of their courses.

27. The combined total of grant and tuition fees is referred to as teaching resource or simply as resource.

Resource = HEFCE grant + tuition fees

Calculating the grant

28. In calculating HEFCE teaching funds for each university and college, there are four main stages:

Stage 1 We calculate a **standard resource** for the institution. This is a notional calculation of what the institution would get if grant was calculated afresh each year. It is based on each institution's profile of students, and takes into account:

- the number of students
- subject-related factors
- student-related factors
- institution-related factors.

Stage 2 We calculate the **actual resource** for the institution. This is based on the teaching grant which we actually paid to the institution for the previous year, adjusted for various factors such as inflation, plus our assumptions of student tuition fee income.

Stage 3 We compare the **standard resource** with the **actual resource** and work out the **percentage difference between them.**

Stage 4 If the difference between the standard resource and the actual resource is no more than 5 per cent (whether that is plus 5 per cent or minus 5 per cent), then the HEFCE grant will be carried forward from one year to the next. For institutions outside the plus or minus 5 per cent **tolerance band**, their grant and/or student numbers need to be adjusted so that they move to within the tolerance band.

29. Each stage is described in more detail below.

Stage 1 Calculating the standard resource

Student numbers and volume of teaching activity

30. The students who count towards our teaching grant calculations are, broadly, those home and EU students who are on higher education courses open to any suitably qualified candidate and who are not funded from other public sources. Categories of students which we do not fund through our allocations for teaching include overseas students from outside the EU, and students whose funding is provided from public sources such as the NHS or the TTA. In addition, full-time postgraduate research (PGR) students in years 2 and 3, and part-time postgraduate research students in years 3 to 6, are funded only through our funding method for research.

31. Student numbers are counted in full-time equivalent (FTE) terms. A part-time student is measured by comparing their learning activity with that of a full-time student, so that each will count as a variable proportion of one FTE. Students who undertake practical work or industrial experience for a year outside the university or college (known as sandwich year-out students) are counted at the rate of 0.5 FTE per student for that year.

32. In determining an institution's standard funding for the coming year, we count the students recruited the previous year, and add on any student numbers awarded in the competition for additional places for the coming year.

Premiums

33. Clearly there are factors such as the types of student, and the nature of the subject, that call for different levels of resource. To take account of these factors, we attach funding premiums when we calculate the standard resource for each institution. They relate to:

- the subject
- the student
- the institution.

Subject-related factors

34. Different subjects require different levels of resource: some subjects need laboratories and workshops while others are taught wholly in lecture theatres and seminar rooms. We have defined four broad groups of subjects (price groups) for funding, and have set relative cost weights for each based on sector averages. These cost weights are translated into levels of resource which depend on the total amount of money available each year.

Price group	Description	Cost weight
A	The clinical stages of medicine and dentistry courses and veterinary science	4.5
B	Laboratory-based subjects (science, pre-clinical stages of medicine and dentistry, engineering and technology)	2
C	Subjects with a studio, laboratory or fieldwork element	1.5
D	All other subjects	1

35. We have used data on actual spending patterns by HEIs to work out the size of the cost weights. We used separate studies of higher education provision in FECs to assign subjects to price groups.

Student and institutional premiums

36. Having weighted the student numbers by their subject price group, we then apply further weightings to take account of student or institutional factors.

37. The student premiums which apply for 2002-03 are:

Part-time students There are extra costs associated with part-time students. For example, the institution's administration costs for two part-time students, each equivalent to 0.5 FTE, will be higher than for one full-time student.

Mature students Mature full-time undergraduates often need extra support, as they return to studying. (We define mature students as being 25 or over on entry.)

Students on long courses Some courses are taught over longer periods than others within the year and so cost more. Courses that last for 45 weeks or more within one academic year attract a premium. This does not apply to courses in price group A, where the course length has already been taken into account within the cost weight.

38. The institutional premiums which apply for 2002-03 are:

London premium We pay a premium towards the higher costs of operating in London.

Pensions Some institutions are paid a premium for staff pensions because of the higher costs of their pension schemes.

Specialist institutions Some specialist institutions (defined as having 60 per cent or more of their courses in one or two subjects only) have higher costs.

Small institutions Small institutions (defined as having 1,000 FTEs or fewer) often carry disproportionately high central and administrative costs.

Old and historic buildings Institutions with old and historic buildings (constructed before 1914) have higher costs to cover, for example, maintenance, refurbishment and heating.

39. The following table shows the way we apply the student and institutional premiums.

	Calculated as:	Qualifying institutions
Student premiums		
Part-time students	5% of the unweighted FTE	HEIs and FECs
Mature students	5% of the unweighted FTE	HEIs and FECs
Students on long courses	25% of the FTE weighted by price group	HEIs and FECs
Institutional premiums		
London premium	8% (inner London) or 5% (outer London) of the FTE weighted by price group	HEIs and FECs
Pensions	1.5% of the FTE weighted by price group	HEIs only
Specialist institutions	Variable percentage (usually 10%) of the FTE weighted by price group	HEIs only
Small institutions	Variable percentage of the unweighted FTE	HEIs only
Old and historic buildings	Variable percentage of the unweighted FTE	HEIs only

Calculating the standard resource

40. We calculate a basic amount of funding for a full-time student by dividing all the money available to fund teaching (our grant plus tuition fees) by the total number of weighted FTE students in the sector. This basic rate of funding (grant plus fee) is called the base price and is the basic rate (that is the rate for a standard FTE) in price group D. For 2002-03, the base price is £2,870[1].

41. The total weighted FTEs for an institution are the sum of the FTEs weighted by price group, plus the student and institutional premiums.

42. The standard resource for an individual institution is its total weighted student FTEs multiplied by the base price.

[1] The base price therefore implies resource rates for each price group of £12,915 for price group A, £5,740 for price group B, £4,305 for price group C and £2,870 for price group D.

Stage 2 Calculating the actual resource

43. For each institution, we start with the HEFCE grant for teaching they received the previous year. Then we make the following adjustments.

Grant adjustments

- Adjust funding where institutions have failed to meet the requirements of their funding agreement (see paragraphs 50 to 55). This usually arises because institutions are unable to recruit or retain the numbers of students for which the previous year's grant was allocated.
- Adjust for increases due to inflation within the total funds provided by the Government.
- Add any funding for additional students. The Government wants to expand the higher education sector. Each year, over the next few years, the HEFCE will be providing funds to the sector for extra students. We allocate additional places in response to bids from institutions and fund them at standard resource rates (excluding the contribution assumed to come through tuition fees).

Fee adjustment

- Add an assumed income from tuition fees paid by students, Research Councils, local education authorities, employers, and so on.

44. For 2002-03 the assumed fee income per FTE is as follows:

Full-time undergraduates	£1,100 per FTE
Sandwich year-out undergraduates	£1,080 per FTE
Part-time undergraduates	£810 per FTE
Postgraduates on courses with regulated fees (these are courses such as PGCEs and some architecture courses)	£1,100 per FTE
Other postgraduates	£2,870 per FTE

Stage 3 Calculating the percentage difference

45. The next step is to compare the results of Stage 1, the standard resource, with the results of Stage 2, the actual resource. The percentage difference is calculated as follows:

$$\frac{\text{actual resource} - \text{standard resource}}{\text{standard resource}} \times 100$$

46. The funding method aims to ensure that similar activities are funded at similar rates, in all universities and colleges. Therefore we do not want to give individual institutions much more or much less money than their standard resource. But at the same time we do not want to apply a completely standardised flat rate, but allow some variation around the standard to

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recognise the differing circumstances and content of courses at different institutions, as well as to permit some flexibility. We therefore allow a 'tolerance band' or difference of 5 per cent above or below the standard resource.

Stage 4 Calculating the teaching grant

47. If an institution is within the tolerance band, our funding will roll forward from the previous year. In other words, we will pay the amount calculated in Stage 2, less the assumed income from tuition fees. This applies to most universities and colleges.

48. For institutions which fall outside the tolerance band, we take action to bring them within the band. This may be by increasing or reducing student numbers, or by adjusting funding.

49. Annex A gives more detailed descriptions of the calculations of standard resource, assumed fee income, and the comparison between standard and actual resource.

The funding agreement

50. A funding agreement, also referred to as Part 2 of the Financial Memorandum, is drawn up each year between an institution and the HEFCE.

51. The funding agreement is constructed in broad terms. It implies a weighted volume of activity which is being funded against the resource being allocated.

52. Institutions can vary their recruitment as long as the weighted volume of activity is maintained within certain implied limits. So, for example, they may vary the balance of recruitment between full-time and part-time students or between different price groups. When the funding announcements are made, well ahead of the start of the relevant academic year, institutions cannot be sure about their recruitment in that year. This may be less than expected, the balance between subjects may vary, or the number of students not completing the academic year may differ from expectations. In most cases this does not affect their grant. However, if recruitment results in the actual resource differing by more than 5 per cent from standard resource, then action is taken to draw the institution back within that tolerance band. This would be achieved by adjusting student numbers or funding in the current and/or subsequent years.

53. When we provide funding for additional places in response to bids from institutions, we expect them to increase their student numbers. We therefore set them a target for their overall FTE students. If they recruit below the target, we reduce the funding we have provided for their bid. However, we give institutions a second chance to deliver the expected increases, recognising that start-up difficulties may prevent full recruitment in the first year.

54. The Council sets minimum numbers for students on some medical and dental courses. If institutions fall short of the minimum numbers, grant is reduced.

55. The Government has a policy to increase recruitment to foundation degrees and courses below degree level. Many institutions have been successful in bidding to us for additional places on such courses for 2002-03, so we expect their recruitment to such courses to show an appropriate increase compared with 2001-02.

Other elements of teaching funds

56. Outside our main funding method for teaching, we also allocate funding each year to recognise the additional costs of recruiting and supporting students under-represented in higher education or who have disabilities. We identify these students using the individual student records provided to the Higher Education Statistics Agency (HESA) and the LSC.

57. Students under-represented in higher education are defined as those who come from neighbourhoods with below-average participation. We use a geodemographic classifier to assign each student to one of 160 neighbourhood types, based on their home postcode. We weight the students according to the HE participation rate of each neighbourhood type. Those neighbourhoods with the lowest participation rates generate the highest weightings, while those with above average participation have a weighting of zero. The funding provided reflects institutions' success in recruiting and retaining students from neighbourhoods with below average participation.

58. Funding to widen access for students with disabilities reflects the proportion of students that each institution recruits who are in receipt of the Disabled Students Allowance. This is an allowance paid by LEAs to assist students who can show that they have a disability or medical condition that affects their ability to study.

Funds for research

59. Public research funds are provided under a dual support system. The HEFCE provides funding to support the research infrastructure. Our funds go towards the cost of the salaries of permanent academic staff, premises, libraries and central computing costs. The Research Councils provide for direct project costs and contribute to indirect project costs.

60. The general funds provided by the HEFCE also support basic research in institutions and contribute to the cost of training new researchers. This basic research is the foundation of strategic and applied work, much of which is later supported by Research Councils, charities, industry and commerce.

61. We are committed to promoting excellent research. HEFCE research funds are distributed selectively to higher education institutions that have demonstrated their strength in research by reference to national and international standards. This quality is measured in a periodic Research Assessment Exercise (RAE). FECs are not eligible for our research funding.

62. Our funding for research in 2002-03 is £940 million and is allocated with reference to both quality and volume of research activity. We refer to this quality-related research funding as QR.

Quality-related research funding

63. There are three separate components of QR funding:

Mainstream QR allocated to reflect the quality and volume of research at institutions in different subjects	£841.2M
Funds for the supervision of research students	£69.5M
London weighting allocated to reflect the additional costs of provision in London	£29.3M

Mainstream QR

64. There are two stages to the allocation of mainstream QR funds:

Stage 1 determining the amount provided for each subject

Stage 2 distributing the subject totals between institutions.

Stage 1 Determining the amount provided for each subject

65. Mainstream QR funds are divided between 68 subject areas (units of assessment). Each subject is assigned one of three cost weights, which have been calculated to reflect the **relative costs** of research in those subjects. These are multiplied by the **volume** of research in each subject to work out the total funding for that subject.

66. The three **cost** weights are:

		Weighting
A	High cost laboratory and clinical subjects	1.6
B	Intermediate cost subjects	1.3
C	Others	1.0

67. We measure the **volume** of research in each unit of assessment using five separate components. These volume components apply for departments rated 3a or above in the RAE (see paragraphs 71 and 72 below) and are weighted as follows:

- research-active academic staff – 1 x number of FTE research-active academic staff funded from general funds (including NHS funding for nursing and other subjects allied to medicine) and selected for assessment in the RAE
- research assistants – 0.1 x number of FTE research assistants
- research fellows – 0.1 x number of FTE research fellows
- postgraduate research students – 0.15 x 1.75 x FTE number of postgraduate research students in their second and third years of full-time study, or third to sixth years of part-time study. The multiplier of 1.75 is used to scale up the 2 years counted for funding purposes to a total of 3.5 years, which represents an average period of study for a full-time research degree
- research income from charities – 0.228/25,000 x average of last two years' income from charities. Income from charities is divided by £25,000 (a researcher's average salary) to obtain a person equivalent.

68. The number of research-active academic staff is the most important measure of volume: it accounts for about two-thirds of the total. Research-active staff numbers are fixed between RAEs; we update other volume measures annually.

Stage 2 Distribution of the subject totals between institutions

69. The 68 subject totals are distributed to institutions in proportion to the **volume** of research multiplied by the **quality** of research in the subject for each institution.

70. The **volume** of research for each institution in each subject is measured in the same way as in Stage 1 above, but includes NHS-funded staff for all units of assessment.

71. The **quality** of research is assessed in a Research Assessment Exercise conducted every four or five years. The last RAE was conducted in 2001 and will inform funding decisions from 2002-03.

72. In the last RAE, each institution was awarded a rating, on a scale of 1 to 5* (five star), for the quality of its research in each unit of assessment in which it was active. The table below shows how these ratings relate to funding multipliers. Ratings 1, 2 and 3b attract no funding, while a rating of 5* attracts nearly three times as much funding as a rating of 4 for the same volume of research activity. As a result, our funding of research is highly selective. In 2002-03, 75 per cent of HEFCE research funds will go to 25 higher education institutions.

RAE ratings converted into funding weights for each unit of assessment

2001 RAE rating	Funding weights in QR model
1	0
2	0
3b	0
3a	0.305
4	1
5	1.89
5*	2.707

Other elements of QR funding

73. As explained in paragraph 30, we fund postgraduate research students in years 2 and 3 (full-time) or years 3 to 6 (part-time) only through our funding method for research and not through funds for teaching. This ensures that we only provide funding for PGR places in higher quality, well-equipped research departments, where supervisors are active in research and have time for supervision. We allocate these funds for the supervision of research students in proportion to the weighted FTE numbers in units of assessment rated 3a or higher. The weightings are the three research cost weights A to C, given in paragraph 66.

74. We also provide additional QR funding to recognise the extra costs of provision in London. These allocations equal 12 per cent (for inner London) or 8 per cent (for outer London) of the total of mainstream QR and funds for the supervision of research students.

Rewarding and developing staff in HE

75. The pay levels and terms and conditions of employment for academic and other staff employed by HEIs are matters for the HEIs themselves to determine. However, they are expected to follow public sector pay policy by taking account of fairness, affordability, and the need to recruit, motivate and retain staff. Staff salaries are met through the block grant.

76. The funding for higher education announced following the Government's 2000 spending review included £330 million of additional specific funding over 2001-02 to 2003-04 to reward and develop staff in higher education. These funds are to be used in part to recruit and retain high quality academic staff in strategically important disciplines or areas, and to help modernise the management processes in the sector.

77. We are distributing these funds to HEIs in proportion to their combined basic recurrent HEFCE grants for teaching and research. Funding, which for 2002-03 totals £120 million, will be released once HEIs have provided full and acceptable human resource strategies addressing certain priority areas. HEIs are free to determine their own objectives, and specific targets will be monitored through their annual operating statements.

Special funding

78. We recognise that not all teaching, research and related activities can be adequately supported through formula funding. Each year we provide special funding for a wide range of purposes. These funds are reviewed regularly and, wherever appropriate, new initiatives are introduced or the funds are phased out or incorporated into formula-based allocations. In 2002-03 special funding amounts to £745 million. This total includes additional earmarked funding for capital announced following the Government's 2000 spending review and contributions to programmes from other partners.

79. Special funding covers a variety of strategic areas as well as support for national facilities, capital funding and inherited activities.

2002-03 Special funding

	Funding in £ millions
Strategic	
Learning and teaching	44
Access and participation	30
Research	4
Business and the community	58
Sector	34
International	12
Strategic total	182
National facilities	89
Inherited activities	95
Capital	
From recurrent funding	75
Earmarked	302
Capital total	377
Value for money, research and development	2
Total	745

80. We have established programmes to channel funding to strategic priority areas. These programmes are: supporting the development of learning and teaching strategies and the adoption of best teaching practice; funding collaborative projects in regions to widen participation in higher education; developing, with the Department of Trade and Industry and the Home Office, the capabilities of HEIs to respond to the needs of business and the community; and assisting HEIs with collaboration and restructuring projects for the benefit of the whole sector.

81. The national facilities include funding for the AHRB and for investment in the national IT infrastructure, including the Joint Academic Network and national datasets, through the Joint Information Systems Committee of the UK funding councils.

82. The amount of special funding for inherited activities (those inherited from previous funding councils) continues to decline. Our intention is to continue to reduce this call on our resources so that those funds can be released to other priority activities.

83. In 2002-03, significant sums, including additional earmarked capital funding, continue to be provided to address past under-investment in the sector, or inherited capital problems. Capital programmes include the poor estates initiative; the Joint Infrastructure Fund; and specific teaching, IT and research projects in all HEIs.

84. Increasingly, special funding programmes – particularly for capital projects – are moving away from bidding exercises. Instead we are determining allocations and outcomes against which HEIs can set their own priorities. This conditional allocation approach helps reduce the burden of transaction costs on HEIs.

Moderation

85. To help maintain stability, we phase in changes by moderating increases or decreases in teaching and research funding to institutions that would otherwise be affected by large fluctuations. The amount of moderation funding we allocated in 2002-03 totals £10.7 million, distributed to 15 universities and colleges.

Annex A Funding for teaching – examples

Calculating the standard level of resource

There are five steps to calculating standard resource:

- Step 1 Collect FTE student data in each category
- Step 2 Weight the FTEs in Step 1 by the appropriate price group cost weights
- Step 3 Calculate additional FTEs for each of the student and institutional premiums which apply
- Step 4 Calculate total weighted FTEs
- Step 5 Calculate standard resource.

Step 1 Collect FTE student data in each category

We disaggregate students according to 48 different categories (24 categories[2] for FECs):

four price groups (subjects)

x two modes (full-time and sandwich, or part-time)

x three levels (undergraduate, postgraduate taught or postgraduate research)

x two lengths of study during the year (standard or long).

We perform the calculations of standard resource separately for each of these student categories.

Step 2 Weight the FTEs in Step 1 by the appropriate price group cost weights

Weighted FTEs = FTE from Step 1 x price group weight (4.5 for price group A, 2 for price group B[3], 1.5 for price group C and 1 for price group D).

Step 3 Calculate additional FTEs for each of the student and institutional premiums which apply

The premiums are expressed as additional weighted FTEs, calculated in relation to either the unweighted FTEs (from Step 1) or the price group weighted FTEs (from Step 2), depending on whether the additional cost which the premium seeks to reflect varies according to the subjects being studied.

- Long course premium

If the course is long, and the student FTE is in price groups B, C or D, the additional FTEs = price group weighted FTEs (Step 2) x 0.25. If the course is standard length, and/or the student FTE is in price group A, the additional FTEs = zero.

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[2] FECs have three price groups (B,C and D), two modes, two levels (undergraduate or postgraduate) and two lengths of study.

[3] For FECs, a varying proportion of the student data that they record in price group B will be funded as price group B provision, with the balance being funded as price group C. The proportions were determined following reviews to identify higher cost provision at each college.

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- Part-time premium

  If the course is part-time, the additional FTEs = unweighted FTEs (Step 1) x 0.05. If the course is full-time or sandwich, the additional FTEs = zero.

- Mature full-time undergraduate students premium

  If the student FTE is full-time or sandwich undergraduate, the additional FTEs = unweighted FTEs (Step 1) x proportion of full-time or sandwich students who are mature x 0.05. We calculate the proportion of students who are mature from individual student records. Students are counted as mature if they are at least 25 years old on entry. For all part-time or postgraduate students, the additional FTEs = zero.

- London premium

  If the institution is based in London, the additional FTEs = price group weighted FTEs (Step 2) x either 0.08 (if in inner London) or 0.05 (if in outer London). For institutions outside London, the additional FTEs = zero.

- Pensions premium (HEIs only)

  If the institution is part of the Universities Superannuation Scheme, the additional FTEs = price group weighted FTEs (Step 2) x 0.015. For all other institutions, the additional FTEs = zero.

- Specialist college premium (HEIs only)

  If the institution is eligible for the premium, the additional FTEs = price group weighted FTEs (Step 2) x a variable percentage. This percentage depends on the particular characteristics of the institution, but is commonly 10 per cent. Institutions are eligible for the premium if they have at least 60 per cent of their FTEs in no more than two subjects, and if, without the premium, their actual resource would be at least 8 per cent above standard resource. For all other institutions, the additional FTEs = zero.

- Small institution premium (HEIs only)

  If the institution is eligible for the premium, the additional FTEs = unweighted FTEs (Step 1) x a variable percentage. Institutions are eligible for the premium if, when we introduced it, they had no more than 1,000 FTEs in total (including any students on further education courses), and they are not already receiving a specialist college premium of more than 10 per cent. The value of the premium in percentage terms is calculated on a sliding scale from 0 to 20 per cent, where the fewer FTEs an institution has, the larger its premium. For all other institutions, the additional FTEs = zero.

- Old and historic buildings premium (HEIs only)

  If the institution is eligible for the premium, the additional FTEs = unweighted FTEs (Step 1) x a variable percentage. Institutions are eligible for the premium if they have buildings (excluding residences for students) constructed before 1914, which they have owned since at least 1 April 1998. The larger the floor space attributable to the old and historic buildings, the larger the value of the premium in percentage terms. For all other institutions, the additional FTEs = zero.

Step 4 Calculate total weighted FTEs

Total weighted FTEs = price group weighted FTEs (Step 2) + additional weighted FTEs for each student or institutional premium (total Step 3).

Step 5 Calculate standard resource

Standard resource in each category = total weighted FTEs in that category (Step 4) x the base price (£2,870 for 2002-03). Total standard resource is the sum of the standard resource calculated for each student category.

Having calculated standard resource, we compare it with actual resource, and express the difference between them as a percentage. If the percentage difference is more than 5 per cent, action is taken to bring the institution within the ±5 per cent tolerance band by adjusting its student numbers and/or funding.

Worked examples of the teaching funding calculations for HEIs

Example 1

University V and Higher Education College W both have 1,200 undergraduate student FTEs, with the same number of FTE students in each of the four price groups A, B, C and D. In this example, the HEFCE grant is £5,750,000. HE College W is wholly part-time whereas University V has no part-time students.

The table below shows the effect on the percentage difference of the part-time recruitment.

Standard resource calculation				(a)	(b)	(c)	(d)	(e)
Institution	Price group	Mode	Level	FTE	Cost weighted FTE	Part-time 5% x (a)	Total weighted FTE) = (b) + (c)	Standard resource = (d) x £2,870
University V	A	FTS	UG	200 x 4.5	= 900	0	900	£2,583,000
	B	FTS	UG	300 x 2	= 600	0	600	£1,722,000
	C	FTS	UG	400 x 1.5	= 600	0	600	£1,722,000
	D	FTS	UG	300 x 1	= 300	0	300	£861,500
Total				1,200	2,400	+ 0	=2,400	£6,888,000
College W	A	PT	UG	200 x 4.5	= 900	10	= 910	£2,611,700
	B	PT	UG	300 x 2	= 600	15	= 615	£1,765,050
	C	PT	UG	400 x 1.5	= 600	20	= 620	£1,779,400
	D	PT	UG	300 x 1	= 300	15	= 315	£904,050
Total				1,200	2,400	+ 60	= 2,460	£7,060,200

Resource comparison	(f)	(g)	(h)	(i)		
Institution	HEFCE grant	Assumed fee rate per FTE	Assumed fees = (a) x (g)	Actual resource £s =(f) +(h)	Standard resource £s	Percentage difference
University V	£5,750,000	£1,100	£1,320,000	7,070,000	6,888,000	+2.6%
College W	£5,750,000	£810	£972,000	6,722,000	7,060,200	-4.8%

Both institutions are within the tolerance band so no change in funding or student numbers will be needed.

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The table below shows the effect of further premiums applying to the same institutions. University V has a pensions premium and 10 per cent of its students are mature. HE College W has a 6 per cent premium for its old and historic buildings.

Total weighted FTE calculation			(a)	(b)	(c)	(d)	(e)	(f)	
Institution	Price group	Mode	FTE	Cost weighted FTE	Part-time 5% x(a)	Pensions 1.5% x (b)	Mature 10% x 5% x (a)	Old & historic buildings 6% x (a)	Total weighted FTE sum (b) to (f)
University V	A	FTS	200 x 4.5	= 900	0	13.5	1	0	= 914.5
	B	FTS	300 x 2	= 600	0	9	1.5	0	= 610.5
	C	FTS	400 x 1.5	= 600	0	9	2	0	= 611
	D	FTS	300 x 1	= 300	0	4.5	1.5	0	= 306
Total			1,200	2,400	0	36	6	0	2,442
College W	A	PT	200 x 4.5	= 900	10	0	0	12	= 922
	B	PT	300 x 2	= 600	15	0	0	18	= 633
	C	PT	400 x 1.5	= 600	20	0	0	24	= 644
	D	PT	300 x 1	= 300	15	0	0	18	= 333
Total			1,200	2,400	60	0	0	72	2,532

Resource comparison			
Institution	Actual resource (as above)	Standard resource	Percentage difference
University V	7,070,000	7,008,540	+0.9%
College W	6,722,000	7,266,840	-7.5%

University V is still in the tolerance band, but College W is now below it. Action will be taken to help College W move back within the tolerance band.

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Example 2

University X and Higher Education College Y both receive £5,500,000 in HEFCE grant for teaching. Both have 1,000 FTEs, but they have different weightings. The table below shows the effect of the different weightings on the percentage difference from standard resource. University X is in outer London. HE College Y has a specialist college premium.

Total weighted FTE calculation					(a)	(b)	(c)	(d)	(e)	(f)	
Institution	Price group	Mode	Level	Length of course	FTE	Cost weighted FTE	Part time 5% x (a)	Long courses 25% x (b)	London premium 5% x (b)	Specialist college premium 10% x (b)	Total weighted FTE sum (b) to (f)
University X	A	FTS	UG	L	200	900	0	0	45	0	945
	B	FTS	UG	L	250	500	0	125	25	0	650
	C	PT	UG	S	400	600	20	0	30	0	650
	D	FTS	PGT	S	150	150	0	0	7.5	0	157.5
Total					**1,000**	**2,150**	**20**	**125**	**107.5**	**0**	**2,402.5**
College Y	B	FTS	UG	S	500	1,000	0	0	0	100	1,100
	B	FTS	PGT	S	150	300	0	0	0	30	330
	B	FTS	PGR	L	50	100	0	25	0	10	135
	B	PT	UG	S	250	500	12.5	0	0	50	562.5
	B	PT	PGT	S	50	100	2.5	0	0	10	112.5
Total					**1,000**	**2,000**	**15**	**25**	**0**	**200**	**2,240**

Example 2 (continued)

Assumed fee income calculation			(a)	(g)	
	Mode	Level	FTE (as above)	Assumed fee rate	Assumed fee income (a) x (g)
University X	FTS	UG	450	£1,100	£495,000
	PT	UG	400	£810	£324,000
	FTS	PGT	150	£2,870	£430,500
Total			**1,000**		**£1,249,500**
College Y	FTS	UG	500	£1,100	£550,000
	FTS	PGT	150	£2,870	£430,500
	FTS	PGR	50	£2,870	£143,500
	PT	UG	250	£810	£202,500
	PT	PGT	50	£2,870	£143,500
Total			**1,000**		**£1,470,000**

Resource comparison	(h)	(i)			
Institution	HEFCE grant	Assumed fee income	Actual resource (h) + (i)	Standard resource	Percentage difference
University X	£5,500,000	£1,249,500	£6,749,500	£6,895,175	-2.1%
College Y	£5,500,000	£1,470,000	£6,970,000	£6,428,800	8.4%

University X is in the tolerance band, but College Y is above it. We will therefore take action to bring it within the tolerance band by adjusting its funding and/or student numbers.

Worked example of the teaching funding calculations for FECs

Example 3

College P and College Q both have 200 undergraduate student FTEs on HE courses, although they have a different mix between price groups and modes of study. Both these further education colleges receive £550,000 in HEFCE funding for these students. College P is based in inner London.

The tables below show the calculation of their standard resource; their assumed fee income; and the comparison between their actual and standard resource.

Standard resource calculation				(a)	(b)	(c)	(d)	(e)	(f)
Institution	Price group	Mode	Level	FTE	Cost weighted FTE	Part-time 5% x (a)	London premium 8% x (b)	Total weighted FTE =sum of (b) to (d)	Standard resource =(e) x £2,870
College P	B	FTS	UG	40 x 2	= 80	0	6.4	86.4	£247,968
	B	PT	UG	20 x 2	= 40	1	3.2	44.2	£126,854
	C	FTS	UG	50 x 1.5	= 75	0	6	81	£232,470
	C	PT	UG	30 x 1.5	= 45	1.5	3.6	50.1	£143,787
	D	FTS	UG	60 x 1	= 60	0	4.8	64.8	£185,976
Total				200	300	2.5	24	326.5	£937,055
College Q	C	FTS	UG	20 x 1.5	= 30	0	0	30	£86,100
	C	PT	UG	60 x 1.5	= 90	3	0	93	£266,910
	D	FTS	UG	40 x 1	= 40	0	0	40	£114,800
	D	PT	UG	60 x 1	= 60	3	0	63	£180,810
	D	FTS	PGT	20 x 1	= 20	0	0	20	£57,400
Total				**200**	**240**	**6**	**0**	**246**	**£706,020**

Example 3 (continued)

Assumed fee income calculation			(a)	(g)	
	Mode	Level	FTE (as above)	Assumed fee rate	Assumed fee income (a) x (g)
College P	FTS	UG	150	£1,100	£165,000
	PT	UG	50	£810	£40,500
Total			200		£205,500
College Q	FTS	UG	60	£1,100	£66,000
	FTS	PGT	20	£2,870	£57,400
	PT	UG	120	£810	£97,200
Total			200		£220,600

Resource comparison	(h)	(i)			
Institution	HEFCE grant	Assumed fee income	Actual resource (h) + (i)	Standard resource	Percentage difference
College P	£550,000	£205,500	£755,500	£937,055	-19.4%
College Q	£550,000	£220,600	£770,600	£706,020	+9.1%

Both colleges are outside the tolerance band. We will therefore adjust their student numbers and/or funding to bring them within the band.

Key

FTE = full-time equivalent

FTS = full-time and sandwich

PT = part-time

UG = undergraduate

PGT = postgraduate taught

PGR = postgraduate research

L = long course

S = standard course

Glossary of terms

Actual resource	HEFCE grant for teaching plus assumed income from tuition fees.
AHRB	The Arts and Humanities Research Board. Its role is similar to that of the Research Councils.
Block grant	The funding provided by the Council to an institution for teaching and research. This does not include special funding.
DfES	Department for Education and Skills.
Dual support	The system of funding research partly by the HEFCE and partly by the Research Councils.
FEC	Further education college.
FTE	Full-time equivalent. Full-time students count as 1 FTE. Students on their sandwich year-out count as 0.5 FTE. The FTE for part-time students is measured by comparing their learning activity with that for an equivalent full-time course.
HEFCE	Higher Education Funding Council for England.
HEI	Higher education institution – a university or college of higher education.
HEIFES	Higher Education in Further Education: Students Survey. The annual aggregate recruitment survey completed by FECs, which informs our funding for teaching.
HESES	Higher Education Students Early Statistics Survey. The annual aggregate recruitment survey completed by HEIs, which informs our funding for teaching.
LEA	Local education authority
Level	Level of study refers to undergraduate (UG), postgraduate taught (PGT) and postgraduate research (PGR).
Mature student	Full-time undergraduates aged 25 or over on entry.
Mode	Mode of study refers to full-time (FT), part-time (PT) or sandwich. For funding purposes full-time and sandwich (FTS) are combined.
Old and historic buildings	Non-residential buildings constructed before 1914, which have been owned by a higher education institution since at least 1 April 1998.
QR funding	Quality-related research funding. It is allocated according to research quality and the amount of research carried out.
Research Assessment Exercise (RAE)	An exercise carried out periodically to determine the quality of research in UK HEIs. The results are used by the higher education funding bodies for England, Scotland, Wales and Northern Ireland to allocate QR funding.
Research Councils	There are six Research Councils. They are government-funded through the Office of Science and Technology to support research in their fields of interest, in both their own establishments and in higher education institutions. In this publication the term 'Research Councils' includes the AHRB.
Sandwich course	A course of study which includes periods of practical work in organisations outside the university or college.

Small institution	A higher education institution with no more than 1,000 student FTEs. This includes students at all levels (including those on further education courses) and funded from any source (including overseas students).
Specialist institution	A university or college that has 60 per cent or more of its courses in one or two subjects only, such as music or art colleges.
Special initiatives	Special initiatives are funds for specific activities for a limited period not linked to formula funding allocations.
Standard resource	A notional calculation of what an institution would get if teaching grant was calculated afresh each year. It is proportional to each institution's FTEs weighted both by price group and by any student and institutional premiums which may apply.
TTA	Teacher Training Agency.
Tolerance band	This is the range from +5 per cent to -5 per cent of the standard resource.
Tuition fees	Fees paid to a university or college for a student to attend a course.

HEFCE (www.hefce.ac.uk)

02/11 Recurrent grants for 2002-03

01/61 Research activity survey 2001

01/54 Additional student places and funds 2002-03: invitation to bid

01/53 HEIFES01: Higher Education in Further Education: Students Survey 2001-02

01/52 HESES01: Higher Education Students Early Statistics Survey 2001-02

01/33 Holdback of HEFCE grant 2001-02

RAE (www.rae.ac.uk)

RAE 4/01 2001 Research Assessment Exercise: The Outcome

RAE 3/01 A guide to the 2001 Research Assessment Exercise

RAE 2/99 Research Assessment Exercise 2001: Guidance on Submissions'

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